

Message Text

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ACTION ARA-10

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E. O. 11652: N/A

TAGS: EFIN, NU

SUBJECT: GON OFFICIALS EXPLAIN TAX REFORM AND 1975

BUDGET ADOPTED BY LEGISLATURE THIS WEEK

1. SUMMARY: AN EXTENSIVE TAX REFORM BILL AND THE 1975 GOVERNMENT BUDGET WERE PASSED THIS WEEK BY THE NICARAGUAN LEGISLATURE. DETAILS AND ANALYSIS FOLLOW BY AIRGRAM. A PRESS CONFERENCE WAS HELD ON NOVEMBER 13 AT WHICH THE MINISTERS OF FINANCE AND ECONOMY, THE PRESIDENT OF THE CENTRAL BANK, THE BUDGET DIRECTOR AND OTHER OFFICIALS EXPLAINED AND DEFENDED THE TAX REFORM BILL AND BRIEFLY OUTLINED THE BUDGET. THE INCREASE IN TAXES FROM 10 PERCENT TO 12 PERCENT OF GDP WAS SAID TO BE NECESSARY TO SUPPORT ECONOMIC DEVELOPMENT PROGRAMS AND TO TRANSFER RESOURCES TO THE RURAL POOR. END SUMMARY.

2. FINANCE MINISTER GUSTAVO MONTIEL OPENED THE CONFERENCE WITH A LENGTHY STATEMENT WHICH INCLUDED THE FOLLOWING POINTS.

A. THE RECONSTRUCTION OF MANAGUA AND PLANS FOR ECONOMIC AND

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SOCIAL DEVELOPMENT REQUIRED THE GON TO RAISE ADDITIONAL

REVENUE. THE PRINCIPAL INCREASE IS IN INCOME TAXES WHICH ARE ALSO MADE MORE PROGRESSIVE. PROPERTY TAXES ARE CONSOLIDATED AND INCREASED AND A SYSTEM OF SELECTIVE CONSUMPTION TAXES COLLECTED AT THE FACTORY OR AT CUSTOMS REPLACE VARIOUS CONSUMER AND PRODUCTION LEVIES. THE SALES TAX IS SLIGHTLY INCREASED. THE REFORM ALSO EXTENDS TO TAX ADMINISTRATION FOR THE BENEFIT OF BOTH THE TAXPAYER AND THE GOVERNMENT.

B. OBJECTIVES OF THE REFORM ARE TO RAISE REVENUE FOR RECONSTRUCTION AND DEVELOPMENT AND TO ENSURE AVAILABILITY OF LOCAL COUNTERPART FOR EXTERNAL FINANCING OF DEVELOPMENT PROJECTS; TO IMPROVE AND TO CONSOLIDATE VARIOUS TAXES (DIRECT TAXES WILL RAISE 56 PERCENT OF THE ADDITIONAL INCOME AND WILL ACCOUNT FOR 24 PERCENT OF REVENUE IN 1975); AND SIMPLIFICATION OF THE TAX SYSTEM.

C. PRINCIPAL CHARACTERISTICS OF THE INCOME TAX REFORM ARE GREATER EQUITY WITH THE STANDARD DEDUCTION RAISED TO C\$30,000 (U.S. \$4,285) FROM C\$20,000 WHICH WILL REDUCE TAX ROLES BY 4,520 PERSONS; INVESTMENTS IN PRIVATE INDUSTRY WILL BE PROMOTED BY ALLOWING COMPANIES TO RE-INVEST UP TO 50 PERCENT OF PROFITS WITHOUT PAYING TAXES AND PERSONS TO DEDUCT UP TO 20 PERCENT OF TAXABLE INCOME TO A MAXIMUM OF C\$100,000 FOR PURCHASE OF STOCKS OF COMPANIES MAKING NEW INVESTMENTS IN INDUSTRY, AGRICULTURE, AND TOURISM; PAYMENT OF TAXES WILL BE MADE IN THE YEAR EARNED IN THREE INSTALLMENTS; AND SIMPLIFIED ADMINISTRATION. FOR A FAMILY OF THREE PERSONS THE FOLLOWING RATES APPLY: INCOME OF C\$30,000, ZERO (NOW C\$20); INCOME OF C\$40,000 WILL PAY C\$600 (NOW ALSO C\$600); C\$70,000 WILL PAY C\$2,400 (NOW C\$1,850); C\$100,000 WILL PAY C\$5,200 (NOW C\$3,550).

D. THE SELECTIVE CONSUMPTION TAX WILL BE COLLECTED AT THE FACTORY OR CUSTOMS AND RANGES FROM 5 PERCENT (BOLTS, NUTS, AND SCREWS) TO 63 PERCENT (SOME ALCOHOLIC BEVERAGES) COLLECTED ON 230 PRODUCTS. THE BASIC SALES TAX WILL INCREASE FROM 5 TO 6 PERCENT BUT THE ELIMINATION OF OTHER FORMS OF SALES TAXES WILL HAVE THE EFFECT OF A REAL INCREASE FROM 5.5 PERCENT TO 6 PERCENT. BASIC FOODSTUFFS AND LIMITED OFFICIAL USE

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OTHER ESSENTIAL PURCHASES OF THE POORER CLASSES ARE NOT TAXED. THE CENTRAL BANK PRESIDENT SAID A RECENT SURVEY SHOWED THAT LESS THAN 10 PERCENT OF THE PURCHASES BY WORKERS WERE SUBJECT TO CONSUMER TAXES.

3. IN RESPONSE TO QUESTIONS, THE OFFICIALS EMPHASIZED THAT THE MAJOR SHARE OF NEW TAXES WILL BE TRANSFERRED TO THE RURAL POOR THROUGH CREDITS AND TECHNICAL ASSISTANCE

AND IMPROVED HEALTH AND EDUCATION SERVICES. IT WAS ALSO POINTED OUT THAT RAISING THE TAX SHARE FROM 10 PERCENT TO 12 PERCENT OF GDP NOW PUTS NICARAGUA ON A PAR WITH HONDURAS BUT BELOW THE 15 PERCENT OF COSTA RICA. ASKED HOW THE GOVERNMENT EXPECTED TO COLLECT INCOME TAXES IN A LATIN COUNTRY, MONTIEL REPLIED THAT AN EXPERT TAX TEAM WAS ALREADY WORKING ON AN ENFORCEMENT SYSTEM AND WHERE RECORDS WERE NOT CLEAR, THE GOVERNMENT WOULD ESTIMATE INCOME FOR TAX PURPOSES.

4. THE CONFERENCE CLOSED WITH A SHORT REVIEW BY MONTIEL OF THE 1975 BUDGET WHICH WILL BE C\$1,881,000 (U.S. \$269 MILLION) WITH 80 PERCENT FINANCED BY CURRENT REVENUES (UP 12 PERCENT FROM 1974) AND 20 PERCENT BY EXTRAORDINARY RESOURCES.

5. COMMENT: THE LAW WAS READ TO (NOT DISTRIBUTED) AND PASSED BY THE LEGISLATURE IN A SINGLE SESSION. WHILE WE DO NOT YET HAVE A COPY, FROM REPORTS IT APPEARS TO BE PROGRESSIVE LEGISLATION AND WAS RAMMED THROUGH TO DENY THOSE AFFECTED TIME TO MOUNT A CAMPAIGN AGAINST IT. THE GOVERNMENT OFFICIALS MADE A GOOD PRESENTATION OF THE NEED FOR ADDITIONAL REVENUE AT THE PRESS CONFERENCE AND ABLY DEFENDED THE POLICY IN ANSWER TO A FEW HOSTILE QUESTIONS. THE FACT THAT NO ONE OUTSIDE THE GOVERNMENT YET HAS A COPY OF THE NEW LAW GAVE THE OFFICIALS A DECIDED ADVANTAGE OVER THE QUESTIONERS.
SHELTON

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